



Mayor's Letter

December 16, 2003

To the Members of the City Council and the Citizens of Chattanooga, Tennessee:

It is my great pleasure to present to you this comprehensive annual financial report for the City of Chattanooga for the fiscal year ended June 30, 2003.

This report details our continuing focus on creating jobs and economic opportunity, maintaining the fiscal integrity of our city and improving the performance of City government. Working with the Council, department administrators, City employees and our citizens, we have been able to accomplish great things for Chattanooga over this past year.

Mayor Corker oversees development of the 21st Century Waterfront Plan as progress is made toward the \$120 million expansion of the Tennessee Aquarium.

During this year, we put in place the funding that is moving the Hope VI project forward and will result in an \$84 million transformation of the Alton Park community. New single and multi family housing is replacing old, dilapidated tenements, providing a catalyst for tremendous investment from the private sector.

We are nearing completion on the infrastructure of Enterprise South Industrial Park, a 1,200 acre site, which, for the first time in many years, positions Chattanooga as a significant site for recruitment. We have also launched an aggressive marketing effort designed to attract the largest number of high paying jobs possible to the site.

The extraordinary \$120 million 21st Century Waterfront development is fully underway and will be complete by May 2005. This effort, which does not rely on one penny from the City's general fund, was created through the support of our community and will dramatically transform our waterfront. The Waterfront Plan includes the expansion of both the Tennessee Aquarium and Hunter Art Museum, improvements to the Creative Discovery Museum and significant enhancements to public areas on the north and south shores.

We created the Enterprise Center which houses the economic development initiatives that are strengthening the city's economy. The Enterprise Center provides our citizens with venture capital, is helping local businesses take full advantage of our Renewal Community designation and is leading our rail initiative. We have created the Connect the Valley initiative designed to cause our city to take better advantage of the federal research facilities that surround us. In doing so, opportunities can be created to turn research developed at these institutions into products manufactured in the Chattanooga area.

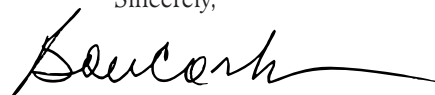
We have launched OutdoorChattanooga, an initiative that will aid the community in taking full advantage of the tremendous outdoor activities that abound throughout the region. From fly fishing to

hang gliding, from rock climbing to white water rafting, from hiking to biking, the initiative will focus on better coordinating the area's multiple outdoor assets and raising awareness of them among local citizens, visitors, and businesses and individuals being recruited to the city.

At the same time, our City government continues to improve the efficiency and effectiveness of the delivery of basic City services. In 2002, Chattanooga was one of the nation's leaders in crime reduction with the overall crime index down by nearly 20%. Implementation of the City's 311 system has democratized access to City services and provided an important tool in evaluating and improving our performance.

Chattanooga's greatest resource remains its citizens. Their self-esteem, pride and confidence is unrivaled by any other community in the country. It is an honor to be Mayor of a community with the self esteem of Chattanooga—a city of citizenry who believe they can accomplish anything that they set out to do and who work hard each day to build a great city.

Sincerely,

A handwritten signature in dark ink, appearing to read 'B. Corker', with a long, sweeping horizontal line extending to the right.

Bob Corker
Mayor



Chattanooga City Council



John M. Lively
DISTRICT 1



Sally L. Robinson
DISTRICT 2



Dan B. Page
DISTRICT 3



W. Jack Benson, Sr.
DISTRICT 4
Vice Chairman



John P. Franklin, Jr.
DISTRICT 5
Chairman



Ronald C. Littlefield
DISTRICT 6



John R. Taylor, Sr.
DISTRICT 7



Leamon Pierce
DISTRICT 8



Yusuf A. Hakeem
DISTRICT 9



City of Chattanooga

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY HALL ANNEX

Chattanooga, Tennessee 37402

OFFICE: (423) 757-5230 • FAX: (423) 757-0525

Bob Corker
Mayor

David R. Eichenthal
City Finance Officer

Daisy W. Madison, CPA
Deputy City Finance Officer

December 1, 2003

To the Honorable Mayor Bob Corker, Members of the City Council
and the Citizens of Chattanooga, Tennessee:

In compliance with state and local statutes, I am submitting the Comprehensive Annual Financial Report (CAFR) of the City of Chattanooga for the fiscal year ended June 30, 2003. These ordinances and statutes require that the City of Chattanooga issue annually a report on its financial position and activities, and that an independent firm of certified public accountants audit this report.

Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To provide a reasonable basis for making these representations, management of the City of Chattanooga has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Chattanooga's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City's framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of our knowledge and belief, this report is complete and reliable in all material respects.

The City of Chattanooga's financial statements have been audited by Hazlett, Lewis & Bieter, PLLC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the City's financial statements are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded that there was a reasonable basis for rendering an unqualified opinion that the City of Chattanooga's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first item in the financial section of this report.

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal

requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. These reports are in a separate Single Audit section.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Chattanooga's MD&A can be found immediately following the financial statement report of the independent auditors.

Governmental Structure, Economic Conditions and Major Initiatives

Profile of the Government.

Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. It encompasses an area of 144.16 square miles and a population of 155,582. The City is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live within a 2 to 2-1/2 hour drive of Chattanooga. The City is empowered to levy a property tax on both real and personal property located within its boundaries. It also has the power to extend its corporate limits by annexation in accordance with procedures under an "Urban Growth Plan" agreed to between the city and the county.

The City operates under a Mayor/Council form of government. The Mayor is elected at-large and is not a

member of the City Council. The Council is composed of nine members, with each member being elected from one of nine districts within the geographic boundaries of the City. The Mayor and Council are elected for four-year terms. The Mayor is the City's chief executive officer and oversees the operation of all City departments.

The City provides a full range of municipal services including but not limited to fire and police protection; sanitation services; construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a storm water maintenance program and a sewer and sewage facility system for its residents and for other communities in southeast Tennessee and northwest Georgia.

The annual budget serves as the foundation for the City's financial planning and control. The City Finance Officer obtains information from all departments and agencies of the City for which appropriations are made and/or revenues are collected and compiles the operating budget for submission to the Mayor. During the months of May and June, the City Council hears budget requests from the departments and agencies at its regularly scheduled meetings. In addition, advertised public hearings are held to allow taxpayers' comments prior to final passage. The budget is legally enacted through passage of an ordinance with an operative date of July 1. The appropriated budget is adopted on a departmental basis; the legal level of budgetary control is the fund level. Transfers of appropriations between funds require the approval of the City Council. The City Finance Officer may make interdepartmental transfers within the General Fund. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented as part of the basic financial statements for the governmental

funds. The budget-to-actual comparisons for the remaining governmental funds with appropriated annual budgets are presented in the governmental fund subsection of this report.

Factors Affecting Financial Condition

The information presented in the financial statements may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Chattanooga operates.

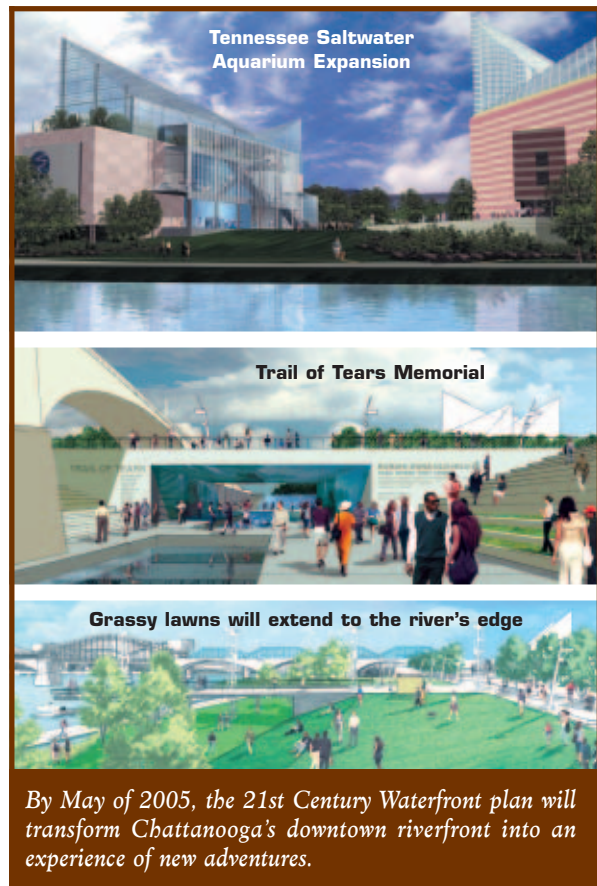
The City's Economic Future.

Employment in the Chattanooga area is diverse. The services and trades sectors now make up 32.7% and 20.4% of local employment, respectively, with manufacturing – historically, the driving engine for the region's economy – making up 20.4%. Employment in the retail service sector is driven, in part, by the presence of Hamilton Place Mall, Tennessee's largest, and now in its fourteenth year of operation, remains a magnet for millions of people. The 1.4 million-square-foot mall has brought in many tourists and locals with a mix of new and familiar stores, theme restaurants and movie theaters. Thanks to the mall, the area has become a retail hotbed with more than 15 million visitors a year.

Chattanooga is particularly well positioned to take advantage of future improvements in the national economy. Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. As of September 2003 the local unemployment rate of 3.5% remains significantly below the national average of 6.1% and the state average of 5.4%.

The City – along with its partners in the private sector and in County, State and the Federal government

– has systematically and strategically invested in infrastructure, recruitment and retention initiatives and technology. It has continued the process of reinventing the economy of the city in a way to meet the challenges of the 21st century. As a result, the Chamber of Commerce projects that within the next four years, 20,000 new jobs will come to the Chattanooga region.



Under the Mayor's leadership, implementation of a \$120 million public-private partnership to revitalize the City's riverfront is well underway. The 21st Century Waterfront Plan (www.waterfrontchattanooga.com) will transform the City's downtown through the creation of new park space, housing, commercial development and the expansion of three of the city's cultural gems – the Tennessee Aquarium, the Hunter Museum and the Creative Discovery Museum. Redirection of Riverfront Parkway and new pedestrian connections will increase

public access to all of these improvements. Work is on schedule for completion in May 2005.



Renovation of the Hunter Museum will include the addition of an outdoor sculpture garden as well as 20,000 square feet of interior expansion.

At the same time, the City and Hamilton County proceed on schedule with the development of Enterprise South as a world-class industrial park. Work is almost complete on the first phase of infrastructure at the 1,200 acre former site of the Volunteer Army Ammunition Plant. Now, City and County officials – working with the Chamber of Commerce – are proceeding with an



The City's new 1,200-acre Enterprise South will focus on bringing high tech jobs to Chattanooga.

aggressive marketing and recruitment plan to encourage firms to relocate to Enterprise South.

The City's new Enterprise Center will focus on efforts to bring high tech jobs to Chattanooga, building on the city's proximity to Oak Ridge, Huntsville and Tullahoma and the recent establishment of the SimCenter and Graduate School of Computational Engineering at the University of Tennessee at Chattanooga.

The federal designation of parts of Chattanooga as a Renewal Community has allowed businesses to begin to take advantage of significant tax benefits for locating there. Since the designation, 11 businesses have received \$17,644,000 in tax credits leading to the creation of 203 new jobs.

The creation of the Southside Redevelopment District led to a \$117.7 million investment in a new conference facility – The Chattanooga, a state of the art “green” City/County Development Resource Center, a new 1,029 space parking facility and an expansion of the Convention and Trade Center. All of these projects are now complete. A new federal court building and headquarters for the Electric Power Board will further bolster development on the Southside.



Expansion of the Convention and Trade Center was completed in 2003, adding 188,000 sq. ft. of meeting facilities.

Neighborhoods and quality, affordable housing continues to be a priority in the community. The MLK neighborhood is on the brink of substantial revitalization as a result of infrastructure investments and programs by

the City, the Lyndhurst Foundation and Chattanooga Neighborhood Enterprise. And an \$84 million HOPE VI project in the City's Alton Park neighborhood will produce hundreds of new units of housing and spur job creation as well.

Performance Budgeting and Enhanced Efficiency.

Governmentally, Chattanooga is going through a series of changes as well. There is a new focus within City government on efforts to both enhance the operational efficiency and effectiveness of government departments and government funded agencies. Departments are being asked to "do more with less" – with a greater focus on management and innovation to reduce costs. At the same time, the City has launched a process – chattanoogaRESULTS – where timely and accurate data is being used on a regular basis to monitor departmental performance.

Cash Management Policies and Practices.

Cash temporarily idle during the year is invested in commercial banks and savings and loan certificates of deposit as well as various instruments guaranteed by the United States Government. These instruments have terms ranging from one week to one year. Cash idle for a longer period of time is invested in longer-term government securities. Due to statutes of the State of Tennessee, the City is limited in the investment methods it may utilize. Changes in fair value of investments is included in the statement of operations as an income/loss.

Risk Management.

The City manages exposure to risk of loss through several methods. Such methods include contracts with commercial carriers for property insurance, surety bond coverage of officials and employees, and commercial liability coverage for specified situations. The City

assumes the risk of loss for general liability not covered by commercial carriers. To minimize its losses, the City has implemented various risk control techniques such as safety inspections and safety training classes. As part of the City's risk management program, resources are being accumulated in an Internal Service Fund to meet potential losses relating to general liabilities and tort claims. Reserves are accumulated in the General Fund to meet potential losses for all other exposures. Additional information on the City's risk management activity can be found in the notes to the financial statements.

Pension and Other Postemployment Benefits.

The City provides retirement benefits through three single-employer defined benefit pension plans that cover all employees. One plan covers general City employees; a second plan covers employees of the Electric Power Board; and the third covers Firemen and Policemen. Each of these plans is maintained separately and engages an independent actuary to calculate the amount of annual contribution that must be made to each plan to ensure the plans will be able to fully meet their obligations to retired employees on a timely basis. As a result of the City's conservative funding policy, all plans are fully funded.

The City also provides post-retirement health care benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 787 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. Governments are not required by GAAP to report a liability in the financial statements in connection with an employer's obligation to provide these benefits. Additional information on the City's pension arrangements and post-retirement benefits can be found in the notes to the financial statements.

Each year the City focuses on a department of City government describing in detail services provided. This year's focus is the newly implemented 311 Center, a division of the Office of Performance Review.

FOCUS ON



Before the 311 system, Chattanoogaans had to choose from among dozens of different phone numbers when they were seeking City services or information. Often times, residents would have to call four or five different phone numbers before reaching the right one. It was frustrating for residents, who were transferred from number to number, and for City employees, who frequently tried to respond to complaints or questions without having the answers.

Since taking its first call in February 2003, 311 has changed that. Now, Chattanoogaans have one number to call to reach City Hall. And every week, customer service representatives in the City's 311 Call Center handle approximately 3000 phone calls. There is one number to call to report housing code violations or missed garbage or find out the hours for recreation centers or the landfill. The 311 Call Center can be reached 24/7 – with City customer service representatives staffing the center from 8 a.m. to 6 p.m. on weekdays.

311 is now the gateway for all non-emergency calls to the City. With a single gateway, City officials are now – for the first time – able to track both the frequency of complaints and the timeliness of the City's response. Every request for City service is now assigned a specific number, allowing citizens to call back to 311 and find out the status. Status can be checked on the City's website as well.

Chattanooga 311 has quickly become a model for other cities. Representatives from Memphis, Nashville and Atlanta have all traveled to Chattanooga to learn from the City's experience. Researchers and reporters

from other cities of a similar size – from Worcester, Massachusetts to Evansville, Indiana – have now cited Chattanooga as a model for increasing citizen access to government and improving accountability.

More importantly, Chattanoogaans have noticed the change. Surveys of 311 users have found that more than 80% rated customer service as either good or excellent.

What are Chattanoogaans saying?

- “It is heartening to know that there are individuals within our local government who know what they are doing, and more importantly, provide excellent customer service to our citizens.”
- “I wanted to comment on what a good idea 311 is...having one number to call for everything! I am pleased with it and 311 staff deserve a pat on the back.”
- “I just moved here...and the 311 Center has been most helpful to me...makes me really glad that I moved here.”



Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chattanooga, Tennessee, for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the eleventh consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

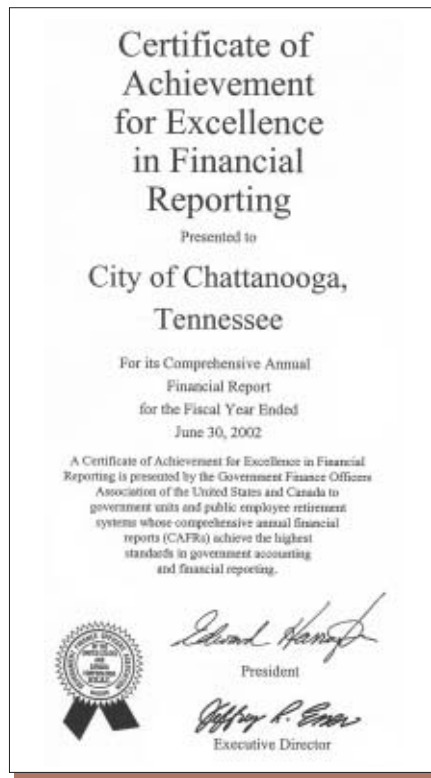
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget for each of the seven fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several

categories including policy documentation, financial planning and organization.

The preparation of this report could not have been accomplished without the professional, efficient, and dedicated services of the entire staff of the Finance

Department and the City's independent public accountants, Hazlett, Lewis & Bieter, PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.



Respectfully submitted,

A handwritten signature in black ink, appearing to read "David R. Eichenthal".

David R. Eichenthal
City Finance Officer

City Officials as of June 30, 2003

BOB CORKER, MAYOR

Michael E. Compton, Chief of Staff

City Council:

| | |
|------------------------------------|------------|
| John P. Franklin, Jr., Chairman | District 5 |
| W. Jack Benson, Sr., Vice Chairman | District 4 |
| John M. Lively | District 1 |
| Sally L. Robinson | District 2 |
| Dan B. Page | District 3 |
| Ronald C. Littlefield | District 6 |
| John R. Taylor, Sr. | District 7 |
| Leamon Pierce | District 8 |
| Yusuf A. Hakeem | District 9 |

Courts:

| | |
|--------------------|------------------|
| John W. Millican | City Court Judge |
| Russell J. Bean | City Court Judge |
| Edward C. Hammonds | City Court Clerk |

Department Administrators and Directors:

| | | |
|-----------------------------------|--------------------------|----------------------|
| LEGAL | Randall Nelson | City Attorney |
| LEGISLATIVE | Carol O'Neal | Clerk of the Council |
| PERSONNEL | Donna Kelley | Administrator |
| NEIGHBORHOOD SERVICES | Kenardo K. Curry | Administrator |
| HUMAN SERVICES | Bernadine Turner | Administrator |
| | Tommie Pruitt | Deputy Administrator |
| PARKS, RECREATION, ARTS & CULTURE | Jerry Mitchell | Administrator |
| | Janice Hester | Deputy Administrator |
| PUBLIC WORKS | William C. McDonald, Jr. | Administrator |
| | Beverly P. Johnson | Deputy Administrator |
| POLICE | Chief Jimmie L. Dotson | Administrator |
| FIRE | Chief Jim M. Coppinger | Administrator |
| FINANCE & ADMINISTRATION | David R. Eichenthal | Administrator |
| | Daisy W. Madison | Deputy Administrator |
| OFFICE OF PERFORMANCE REVIEW | David R. Eichenthal | Director |



| | |
|--------------------|--|
| Brian Smart | Manager, Financial Operations |
| Fredia F. Kitchen | Budget Officer |
| Daisy W. Madison | Treasurer |
| Mark J. Keil | Director, Information Services |
| Gene D. Settles | Purchasing Agent |
| Rayburn Traugher | Administrator of Community Services |
| (Vacant) | Director of Asset Management |
| Tracy Clarke | Risk Manager |
| Henry W. Yankowski | Director, Codes and Inspection |
| D. Lee Norris | Director, City Wide Services |
| Jerry W. Stewart | Director, Waste Resources |
| Phillip Lynn | City Engineer |
| John Van Winkle | City Traffic Engineer |
| Harold E. DePriest | President and CEO, Electric Power Board |
| David F. Clapp | Director, Chattanooga - Hamilton County Bicentennial Library |
| Mark VanLoh | President, Metropolitan Airport Authority |
| Barry M. Bennett | Director, Regional Planning Agency |
| Robert H. Colby | Director, Air Pollution Control |
| (Vacant) | Director, Scenic Cities Beautiful Commission |

CITY OF CHATTANOOGA

Organizational Chart

